

**REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL
PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE MOSSEL BAY MUNICIPALITY FOR THE
YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mossel Bay Municipality, which comprise the statement of financial position as at 30 June 2009, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages XX to XX.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3)(a) of the MFMA my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Standards of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial

reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Mossel Bay Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Mossel Bay Municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Restatement of corresponding figures

9. As disclosed in note 36 to the financial statements, the corresponding figures for the prior statement of financial position have been restated as a result of errors discovered during the current year ended 30 June 2009 in the financial statements of the Mossel Bay Municipality at, and for the year ended, 30 June 2008.

Material losses

10. As disclosed in note 42.9 to the financial statements the municipality incurred water distribution loss of 1 462 megalitres (14.9%) for the year under review.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Municipal Systems Act, 2000 (Act no. 32 of 2000)

11. Not all councillors declared their financial interests, as required by schedule 1, section 7 of the Municipal Systems Act.

Unaudited supplementary schedules

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and accordingly I do not express an opinion thereon.

Material inconsistencies in other information included in the annual report

13. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Governance framework

14. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

15. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No. | Matter | Y | N |
|--|--|---|---|
| Clear trail of supporting documentation that is easily available and provided in a timely manner | | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | ■ | |
| Quality of financial statements and related management information | | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | | ■ |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | | ■ |
| Timeliness of financial statements and management information | | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA. | ■ | |
| Availability of key officials during audit | | | |
| 5. | Key officials were available throughout the audit process. | ■ | |
| Development of and compliance with risk management, effective internal control and governance practices | | | |
| 6. | Audit committee | | |
| | <ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. | ■ | |
| | <ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. | ■ | |
| | <ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | ■ | |
| 7. | Internal audit | | |
| | <ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. | ■ | |

| No. | Matter | Y | N |
|---|---|----------------|---|
| | <ul style="list-style-type: none">The internal audit function operates in terms of an approved internal audit plan. | ■ | |
| | <ul style="list-style-type: none">The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | ■ | |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | ■ | |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | ■ | |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | ■ | |
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA. | | ■ |
| 12. | Delegations of responsibility are in place, as set out in section 79 of the MFMA. | ■ | |
| Follow-up of audit findings | | | |
| 13. | The prior year audit findings have been substantially addressed. | ■ | |
| 14. | SCOPA/Oversight resolutions have been substantially implemented. | Not applicable | |
| Issues relating to the reporting of performance information | | | |
| 15. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete. | | ■ |
| 16. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information. | | ■ |
| 17. | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA). | ■ | |
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance. | ■ | |

16. The annual financial statements had a material misstatement relating to a technical interpretation of the statements of GRAP. The main reason for this is the lapse in ongoing monitoring and supervision to enable an assessment of the effectiveness of internal control over financial reporting.

17. A risk assessment process and fraud prevention plan, which are essential with regard to the development of and compliance with risk management and good internal control and governance practices, have been initiated but not yet completed. The main root cause is a lack of ongoing monitoring and supervision by leadership to ensure the timely completion of the process.
18. The information system framework is not detailed enough to facilitate the preparation of a performance report that is accurate and complete. Furthermore, detailed standard operating procedures setting out the roles and responsibilities of all levels of staff involved in the collection and collation of performance information, from source document to reporting, have not been prepared and communicated throughout the entire municipality. This is indicative of a situation where adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information and adequate mechanisms were not established to monitor and review the performance management system as required by section 40 of the Municipal Systems Act of 2000.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

19. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
22. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Content of integrated development plan

24. The integrated development plan of the Mossel Bay Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Lack of implementation of a performance management system

25. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness and reliability of reported performance information

26. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate? Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistently reported performance information

27. The municipality has not reported on its performance with regard to its objectives/indicators/targets as per the approved integrated development plan with respect to the following objectives.

Transport

To ensure an effective and reliable public transport system infrastructure, in the entire municipal area.

To create an enabling environment for an effective public transport system.

APPRECIATION

28. The assistance rendered by the staff of the Mossel Bay Municipality during the audit is sincerely appreciated.

Auditor - General

Cape Town

November 2009



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence